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## **INTRODUCTION**

St. Joseph County entered into contracts with the Michigan Family Independence Agency (FIA) to perform the fiduciary function for the Strong Families/Safe Children program in St. Joseph County. The contract numbers and amounts were FID 98-75001 for \$213,160, FID 99-75001 for \$131,237, and FID 99-75002 for \$78,060. Collectively, these contracts covered the period October 1, 1997 through the present. These contracts state that St. Joseph County was to be reimbursed for its actual costs incurred in providing the services. Payment was made quarterly in advance by FIA.

## **SCOPE**

The Office of Internal Audit performed an audit of St. Joseph County to determine if the County complied with the terms of its contract with FIA, and if systems, procedures and monitoring operations of the County are in compliance with standards, policies and regulations as established by FIA and the Federal guidelines. Our audit included the County's sub-contacting policies, monitoring process, equipment purchasing policy, and year end close-out procedures. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## **EXECUTIVE SUMMARY**

Based on our review, we concluded that the County was not in compliance with some of the provisions of its contract with FIA, and standards, policies and regulations established by FIA and Federal guidelines. The lack of compliance with Federal Office of Management and Budget Circular A-133 will result in a significant amount of questioned costs if the County fails to implement appropriate corrective action. A description of all the areas of noncompliance and our recommendations for corrective action follow.

## **ST JOSEPH COUNTY RESPONSE**

St. Joseph County indicated in a letter dated July 8, 1999 that they either have complied or are in the process of complying with all recommendations included in this report. St. Joseph County sent a check for \$59,167.39 to the FIA Cashier Unit to reimburse for the excess amount received for FY 1998.

## **FINDINGS AND RECOMMENDATIONS**

### **Reimbursement of Excess Advance**

1. St. Joseph County had not yet reimbursed FIA \$59,167.39 for the amount of advance in excess of the amount expended for contract FID 98-75001. This amount was still outstanding as of April 13, 1999. According to the contract requirements; Section C, sub-section I, the County was to cost settle actual expenditures with FIA within 45 days of the end of the contract, which was 9/30/1998.

The FIA Cashier Unit received a check from St. Joseph County for \$59,167.39 on July 12, 1999. Therefore, no further action by FOA is necessary for this finding.

### **Sub-Contracting**

2. St. Joseph County did not execute written sub-contracts with the providers who provided the services for Strong Families/Safe Children. Therefore, the County paid expenditures they were not legally obligated to pay, and was reimbursed for these expenditures by FIA. Part II, Section C, sub-section a of the contract with FIA states that the County would follow their own sub-contracting policy. The county's policy called for written sub-contracts. Section D, #7 of the contract with FIA also requires that each subcontract include a full list of services to be performed.

Failure to execute written sub-contracts also resulted in St. Joseph County being out of compliance with the following requirements of Federal Office of Management and Budget (OMB) Circular A-133:

- A. St. Joseph County did not establish a sub-recipient relationship, by identifying Federal awards passed to the contractor
- B. St. Joseph County did not inform sub-recipients of the CFDA number
- C. St. Joseph County did not make sub-recipients aware of Federal laws, regulations, and provisions that are imposed on them by the pass-through entity.

WE RECOMMEND that FOA ensure that St. Joseph County properly sub-contracts with the providers of services for the 1999 contracts.

#### Monitoring

- 3. St. Joseph County did not monitor the activities of the sub-recipients as necessary to ensure that federal awards were used for authorized purposes in accordance with laws, regulations, and the provisions of the contracts or grant agreements, and that performance goals were achieved. These monitoring activities are required by OMB Circular A-133 Subpart D.400(d)(3)

WE RECOMMEND FOA ensure that St. Joseph County establishes monitoring procedures to assure compliance with laws, regulations, and the provisions of the 1999 sub-contracts.

#### Review of Sub-Recipient Audit Reports

4. St. Joseph County did not have a process in place to identify sub-recipients that received in excess of \$300,000 in federal funds. OMB Circular A-133 requires that the recipient of federal funds identify sub-recipients who receive in excess of \$300,000 in federal funds, obtain a copy of the Single Audit Report for those agencies, and ensure that appropriate corrective action is taken for all findings and questioned costs identified in the sub-recipient's Single Audit Report. Failure to obtain and review the audit reports and take appropriate corrective action for findings and questioned costs could result in loss of Federal funds for the program.

WE RECOMMEND FOA ensure that St. Joseph County is aware of the requirements for reviewing Single Audit Reports of its sub-recipients.

#### Proper Submission of Expense Reports

5. St. Joseph County did not submit the monthly Statements of Expenditures (FIA-3469) to FIA, as required by Sections G, J, and K under Contractor Responsibilities in the contract. These reports are needed in order to document the actual costs incurred for providing service, and the amount of services provided.

WE RECOMMEND FOA work with St. Joseph County to submit their Statements of Expenditures on a timely basis each month.

#### Recoupment

6. OMB Circular A-133 requires that federal funds be included as questioned costs by auditors for programs where the pass through agency did not monitor the sub-recipient or review their Single Audit Report and take appropriate corrective action. As noted above, St. Joseph County did not meet these oversight requirements for its sub-recipients. If

proper oversight requirements are not implemented, it will be necessary for FOA to start proceedings to recoup the entire amount of federal expenditures for these contracts for 1998 and 1999.

WE RECOMMEND that FOA determine if St. Joseph County complied with all monitoring and oversight requirements of OMB Circular A-133 subsequent to the completion of our audit, and initiate the process to recoup all federal funds expended under these contracts for which the County has not complied with the monitoring and oversight requirements.